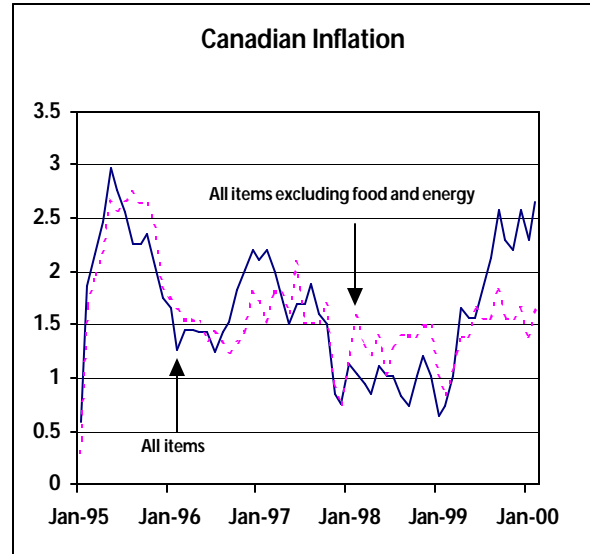


Is Inflation A Problem In Alberta?

Canada

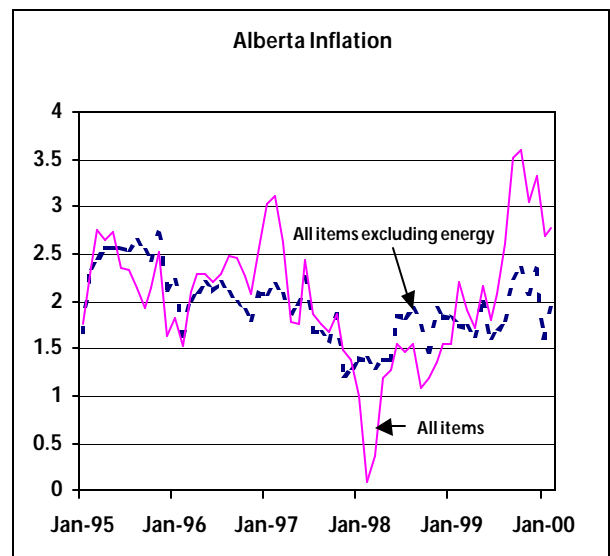
Inflation is most commonly measured by the Consumer Price Index (CPI). As of late, there has been much debate as to whether inflation has reappeared as a problem: the Canadian inflation rate rose from 1% in 1998 to 2.6% in 1999. Excluding the volatile energy component, however, the inflation rate was virtually unchanged (1.5% in 1998 versus 1.6% in 1999). Thus, most of the increase in the inflation rate is due to the fact that the oil prices had almost tripled in 1999. With oil prices declining these effects should begin to unwind.

Although the current inflation rate is well within the target range of 1% to 3%, low unemployment and strong domestic growth have led the Bank of Canada to tighten monetary policy.



Alberta

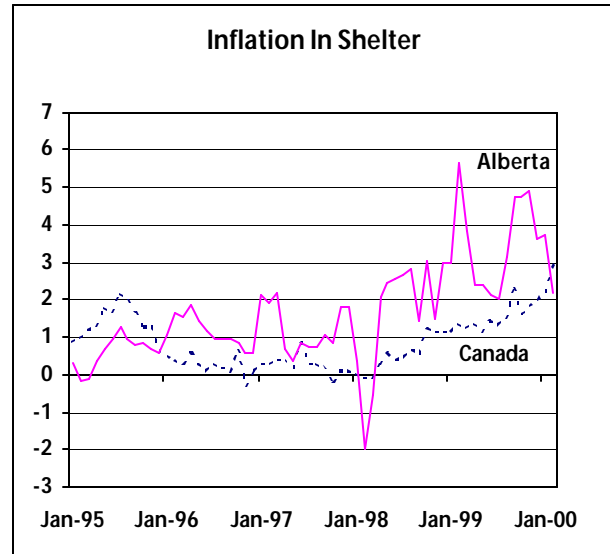
Although inflation is not currently a problem nationally, does the same conclusion hold for Alberta? Alberta's inflation rate rose from 1.5% in 1998 to 3.3% in 1999. These inflation rates are well above the national levels. Excluding energy, inflation still rose strongly from 1.8% in 1998 to 2.3% in 1999, even though inflation remained virtually unchanged at the national level. Energy prices thus do not explain Alberta's higher inflation rate.



Shelter

A closer look at inflation in Alberta shows that some segments of the economy are heating up, particularly where prices are “made in Alberta prices”. Prices for shelter or services, for example, are mainly influenced by local conditions.

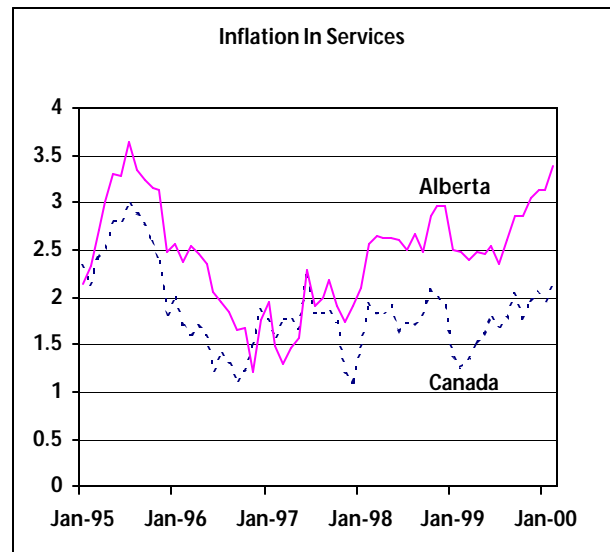
Shelter costs in Alberta rose 3.0% in 1998 and 3.6% in 1999 compared to national increases of 1.2% in 1998 and 2.0% in 1999. Strong net inter-provincial migration may explain these stronger increases. Canadian shelter inflation rates have been solidly trending up, and are now currently about the same as Alberta’s. Shelter costs thus do not unambiguously confirm underlying differences in inflation pressures.



Services

Services, which include items like transportation, health care and tuition fees, are another area where prices are mainly driven by local markets, especially wages. Price increases for the service sector in Alberta have been appreciably above the Canadian average for about two years. In 1998 service costs in Alberta rose 3.0% compared to 1.9% nationally; in 1999 Alberta service costs rose 3.1% compared to 2.0% nationally. Stronger wage growth in Alberta (2.4% in 1999 vs. 1.8% nationally) may explain this.

Of particular concern is the fact that the inflation rate for services has risen sharply since mid 1999 in Alberta but remained flat nationally. This recent rise reflects the current boom in the energy sector



Conclusion

The service sector thus provides some evidence of rising wage pressures in Alberta and suggests a risk of overheating. If sustained, some businesses could view Alberta as uncompetitive in comparison to the other provinces.